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ENAMEL & HEATING PRODUCTS LIMITED

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ANNUAL REPORT

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Board of Directors

M. BOURGET
J. N. COLE
S. R. DONALDSON
D. R. DOWNING
K. DINHAM
J. E. MURPHY
P. WARREN
J. P. WARREN

Officers

PIERRE WARREN
President
D. R. DOWNING
Vice President & General Manager
D. J. CHIPMAN
Secretary-Treasurer & Comptroller
JOHN HOLLOWAY
Assistant Treasurer
L. A. WILSON
Manager - Eastern Sales Division
KEN DINHAM
Manager - Western Sales Division

Auditors

Touche, Ross & Co.

Transfer Agents

Montreal Trust Company, Montreal, Que.
The Central Trust Co. of Canada,
Moncton, N. B., Amherst, N. S.

Registrars

Canadian Trust Company, Montreal, Que.
The Central Trust Co. of Canada,
Moncton, N. B., Amherst, N. S.

ANNUAL REPORT 1971

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1971



**ENAMEL & HEATING PRODUCTS, LIMITED
AND SUBSIDIARY COMPANIES**

ENAMEL & HEATING PRODUCTS, LIMITED

and Subsidiary Companies

To the Shareholders

Your Directors are pleased to present the Company's Consolidated Financial Statements for the year ended December 31, 1971, together with Auditors' Report thereon.

SALES AND PROFIT

Net Consolidated income for fiscal year 1971 was \$578,056 compared with a loss position in 1970. This gives an earning per share of \$2.16 for Class "A" Shares and \$1.66 for Class "B" Shares. The upturn in profit can be attributed to tighter control and higher sales. We are pleased to point out that all Company Divisions showed a profit in 1971.

Total Sales were \$11,078,016, an increase of 15% over 1970. All Divisions report higher sales with the greatest sales increase coming in the Aircraft Division.

We consider your Company to be in a sound financial position. Working capital went up by \$600,138 and is now \$1,688,149 equal to a ratio 1.56. It is the intention of your Board to strive for a further improvement in the liquidity of the Company.

Capital expenditures in 1971 were reduced to a minimum of \$47,438.

OUTLOOK FOR 1972

Your Board is confident that 1972 will again prove to be a good year for the Company. We hope to attain a 10% sales increase over 1971 levels.

Work load in the Aircraft Division appears to be healthy in 1972 although we do not expect it to reach 1971 levels. We continue to do contract work for Douglas Aircraft on D.C. 10 Aircraft components.

The demand for the Appliance Division Products continues very strong. In view of the good outlook of this Division, your Board is giving serious consideration to modernizing the Sackville Plant.

The Steel Division shows great potential and we anticipate sales increases of 20% over 1971. Your Board has initiated a feasibility study to install a continuous casting machine in the Melt Shop. A decision on this matter will be taken in June. Should the study come to a positive conclusion it will entail a capital expenditure of \$500,000.


Our wholly owned subsidiary Airco Products Limited, Vancouver, B. C., continues to contribute significantly to profit. We forecast another good year for 1972.

Serious consideration is given to restoring the yearly dividend of \$.50 on Class "A" Share. A decision will be taken at the next Board of Directors meeting.

EMPLOYEES

The Directors join me in appreciation to all the customers, suppliers, employees and shareholders of the Company for their continued confidence and support.

Approved on behalf of the Board of Directors,


Pierre Warren - President

Sackville, N. B.
March 24, 1972

Auditors' Report

To the Shareholders,
Enamel & Heating Products, Limited.

We have examined the consolidated balance sheet of Enamel & Heating Products, Limited and its subsidiary companies as at December 31, 1971, and the consolidated statements of surplus, income and source and application of funds for the year then ended. Our examination included a general review of accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The prior period adjustment reflected in the previous year's figures should, in our opinion, have been included in the operating costs for that year.

TOUCHE ROSS & CO.

Chartered Accountants.

Saint John, N. B.
March 24, 1972.

ENAMEL & HEATING PRODUCTS, LIMITED

AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet as at December 31, 1971

ASSETS

CURRENT	<u>1971</u>	<u>1970</u>
Accounts receivable — NOTE 2	\$1,768,090	\$2,072,863
Inventories — valued at the lower of cost and net realizable value — NOTE 3	2,908,318	2,246,422
Income taxes recoverable	6,181	2,994
Prepaid expenses	18,749	16,703
	<u>4,701,338</u>	<u>4,338,982</u>

FIXED — NOTE 4

Land, buildings, machinery and equipment	6,649,095	6,628,777
Less accumulated depreciation	2,593,170	2,456,580
	<u>4,055,925</u>	<u>4,172,197</u>

DEFERRED OPERATING COSTS	57,140	70,032
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<u><u>\$8,814,403</u></u>	<u><u>\$8,581,211</u></u>
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On behalf of the Board:

Pierre Warren, *Director*.

D. R. Downing, *Director*.

LIABILITIES

CURRENT	<u>1971</u>	<u>1970</u>
Bank indebtedness — secured	\$1,897,660	\$2,425,159
Accounts payable	975,415	704,661
Dividends on Class A shares	—	4,425
Income taxes payable	14,888	—
Current portion of long-term debt	125,226	116,726
	<u>3,013,189</u>	<u>3,250,971</u>
LONG-TERM DEBT — NOTE 5	1,624,596	1,741,178
	<u>4,637,785</u>	<u>4,992,149</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK

Authorized

Class A — 250,000 shares without par value

Class B — 250,000 shares without par value

Issued and fully paid

Class A — 177,000 shares 809,885 809,885

Class B — 118,000 shares 219,884 219,884

1,029,769 1,029,769

SURPLUS

Contributed 79,977 70,477

Retained earnings 903,245 325,189

983,222 395,666

EXCESS OF APPRAISAL VALUE OF FIXED ASSETS OVER

DEPRECIATED COST — NOTE 4 2,163,627 2,163,627

4,176,618 3,589,062

\$8,814,403 \$8,581,211

ENAMEL & HEATING PRODUCTS, LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1971

CONTRIBUTED	<u>1971</u>	<u>1970</u>
Balance at beginning of year	\$70,477	\$32,179
Incentive grants	9,500	38,298
Balance at end of year	<u>\$79,977</u>	<u>\$70,477</u>
RETAINED EARNINGS		
Balance at beginning of year	\$325,189	\$695,795
Income (loss) for the year	578,056	(352,906)
	<u>903,245</u>	<u>342,889</u>
Dividends on Class A shares	—	17,700
Balance at end of year	<u>\$903,245</u>	<u>\$325,189</u>

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1971

	<u>1971</u>	<u>1970</u>
Sales	\$11,078,016	\$9,660,043
Operating costs	10,381,914	9,590,049
Interest on long-term debt	102,885	105,485
	<u>10,484,799</u>	<u>9,695,534</u>
Income (loss) before income taxes	593,217	(35,491)
Income taxes	15,161	1,970
Operating income (loss) for the year	\$ 578,056	\$ (37,461)
Adjustment relating to prior periods	—	(315,445)
Net income (loss) for the year	<u>\$578,056</u>	<u>\$ (352,906)</u>
Earnings (loss) per Class A share	<u>\$2.16</u>	<u>\$ (1.20)</u>
Earnings (loss) per Class B share	<u>\$1.66</u>	<u>\$ (1.20)</u>

ENAMEL & HEATING PRODUCTS, LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED DECEMBER 31, 1971

SOURCE OF FUNDS	<u>1971</u>	<u>1970</u>
Operations		
Net income (loss) for the year	\$ 578,056	\$(352,906)
Add: items not requiring an outlay of funds		
Depreciation	154,735	177,536
Amortization of deferred operating costs	51,458	38,703
Loss on disposal of fixed assets	466	—
	<u>784,715</u>	<u>(136,667)</u>
Proceeds from sale of subsidiary company	—	20,419
Disposal of fixed assets	8,824	10,037
Government incentive grants	9,500	38,298
	<u>803,039</u>	<u>(67,913)</u>
Working capital - beginning of year	1,088,011	1,436,257
Working capital - end of year	1,688,149	1,088,011
(Increase) decrease in working capital	(600,138)	348,246
	<u><u>\$ 202,901</u></u>	<u><u>\$ 280,333</u></u>

APPLICATION OF FUNDS

Dividends on Class A shares	\$ —	\$ 17,700
Payment of prior years' taxes	—	6,305
Retirement of long-term debt	116,582	117,227
Increase in costs deferred	38,881	8,117
Additions to buildings and equipment	47,438	130,984
	<u><u>\$ 202,901</u></u>	<u><u>\$ 280,333</u></u>

ENAMEL & HEATING PRODUCTS, LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1971

1. *Principles of consolidation*

The consolidated financial statements include the accounts of the company and those of its wholly owned subsidiaries, Mitchell Manufacturing Ltd. and Airco Products Ltd.

2. *Accounts receivable*

	<u>1971</u>	<u>1970</u>
Trade	\$1,758,590	\$2,034,565
Government incentives grant	9,500	38,298
	<u>\$1,768,090</u>	<u>\$2,072,863</u>

3. *Inventories*

	<u>1971</u>	<u>1970</u>
Raw materials	\$1,302,485	\$1,026,401
Work in process	313,632	294,915
Finished goods	1,292,201	925,106
	<u>\$2,908,318</u>	<u>\$2,246,422</u>

4. *Fixed assets*

Fixed assets and the related accumulated depreciation are classified as follows:

	<u>1971</u>		<u>1970</u>	
	Cost and Appraised Value	Accumulated Depreciation	Net	Net
Land	\$ 102,718	\$ —	\$ 102,718	\$ 102,718
Buildings	2,779,429	\$ 621,700	2,157,729	2,185,889
Machinery and other equipment	3,631,835	1,911,488	1,720,347	1,858,332
Automotive equipment	135,113	59,982	75,131	25,258
	<u>\$6,649,095</u>	<u>\$2,593,170</u>	<u>\$4,055,925</u>	<u>\$4,172,197</u>

Fixed assets are shown as appraised by Canadian Appraisal Company Limited on the basis of depreciated replacement value as at December 31, 1954, plus subsequent additions at cost, less disposals. The appraisal increment is broken down as follows:

ENAMEL & HEATING PRODUCTS, LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1971

	1971			1970
	Cost	Appraisal Increment	Total	Total
Land	\$ 64,215	\$ 38,503	\$ 102,718	\$ 102,718
Buildings	1,183,816	1,595,613	2,779,429	2,779,429
Machinery and other equipment	3,102,324	529,511	3,631,835	3,656,263
Automotive equipment	135,113	—	135,113	90,367
	<u>\$4,485,468</u>	<u>\$2,163,627</u>	<u>\$6,649,095</u>	<u>\$6,628,777</u>

During the year 1968, the Company entered into a capital assistance agreement whereby the Canadian Government financed the acquisition of plant machinery costing \$72,261. Of this, 50 per cent represents a reduction in the capital cost of the purchased machinery. The balance is to be repaid in five equal annual instalments. Title to the assets will pass to the Company on payment of the final instalment.

ENAMEL & HEATING PRODUCTS, LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1971

5. *Long-term debt*

	<u>1971</u>	<u>1970</u>
4¾% Sinking Fund Debentures, Series A, maturing April 1, 1976 Authorized and issued		
\$1,250,000 less purchased for redemption	\$ 493,000	\$ 509,000
Sinking fund payments of \$49,500 are due April 1 in each of the years 1971 to 1975		
5½% Serial Debentures Series B, maturing September 1, 1971 Authorized and issued		
\$250,000 less purchased for redemption	—	50,000
6% Sinking Fund Debentures, Series B, maturing September 1, 1984 Authorized and issued	1,225,000	1,250,000
Sinking fund payments of \$50,000 are due September 1 in each of the years 1972 to 1977 and of \$100,000 in each of the years 1978 to 1983		
6% promissory note, payable in annual instalments of \$10,000	10,000	20,000
Government of Canada — capital assistance agreement, payable in annual instalments of \$7,082	21,822	28,904
	<u>1,749,822</u>	<u>1,857,904</u>
Less: current portion	125,226	116,726
	<u><u>\$1,624,596</u></u>	<u><u>\$1,741,178</u></u>

ENAMEL & HEATING PRODUCTS, LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1971

6. *Income Taxes*

The company has claimed capital cost allowance to date which exceeds depreciation recorded in the accounts by \$521,589. Substantially offsetting this, the Company has tax losses carried forward in the amount of \$273,903 together with a tax paid provision for doubtful accounts of \$200,000.

These items have not been reflected in the financial statements.

7. *Statutory Information*

Depreciation recorded in the accounts for the year was \$154,735 (1970 - \$177,536). The board of directors consisted of eight members. Their aggregate remuneration as directors was \$600.

The board appointed three officers to serve during the year. Their aggregate remuneration was \$59,167.

8. Airco Products Ltd. has outstanding lease obligations expiring in 1985 requiring annual payments of \$69,440 before taxes.

ENAMEL & HEATING PRODUCTS, LIMITED

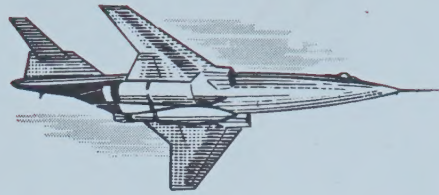
CONSOLIDATED FINANCIAL REVIEW

	1971	1970	1969	1968	1967	1966	1965	1964
Sales	\$11,078,016	\$9,660,043	\$10,914,473	\$9,656,806	\$9,616,527	\$10,650,486	\$11,072,204	\$10,617,922
Net Income (Loss) before depreciation and taxes	747,952	(173,400)	(434,013)	383,350	(286,889)	365,666	431,894	546,502
Depreciation charged	154,735	177,536	170,277	141,771	115,596	120,778	119,373	106,066
Income Taxes	15,161	1,970	(240,773)	101,661	(204,926)	121,028	156,221	193,422
Net Income (loss) for the year	578,056	(352,906)	(363,517)	139,918	(197,559)	123,860	156,300	247,014
Earnings (loss) per share								
Class "A"	2.16	(1.20)	(1.23)	.67	(.67)	.62	.73	1.04
Class "B"	1.66	(1.20)	(1.23)	.17	(.67)	.12	.23	.54
Dividends declared								
Class "A"	—	17,700	53,100	41,595	88,500	88,500	88,500	88,500
Class "B"	—	—	—	—	—	—	—	—
Capital Expenditure	47,438	130,984	442,933	400,452	266,598	212,493	318,721	545,364
Allowance for doubtful accounts	200,000	300,000	127,497	20,626	86,162	65,110	52,193	99,412
Allowance for obsolete inventory	69,836	70,000	—	—	—	—	—	—
Working Capital	1,688,149	1,088,011	1,436,257	2,391,158	2,541,444	3,215,696	3,382,457	3,386,390
Short Term Tax Benefits	473,903	922,596	753,287	265,572	290,943	—	—	—
Cash Throwoff	784,715	(136,667)	(445,218)	375,545	(276,625)	323,461	429,644	473,819
Ratios								
Working Capital	1.56	1.33	1.28	1.70	1.84	1.91	2.08	2.11
Inventory turnover	3.58	3.38	3.50	2.91	3.08	3.00	3.34	3.73
Accounts receivable turnover	5.8	3.7	3.9	3.9	3.4	3.4	3.5	3.7

PRODUCTS OF YOUR COMPANY

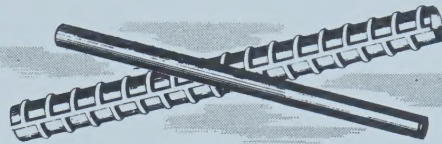
AIRCRAFT

Advanced facilities for the manufacture of components and the maintenance of aircraft for National Defence.



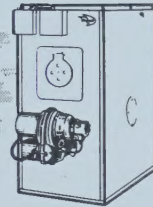
CONSTRUCTION

The fabrication of concrete reinforcing steel, to custom specifications, for immediate delivery.



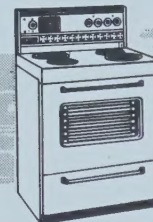
HEATING UNITS

Oil, gas, electric and solid fuel furnaces and heaters for home and business, engineered for top efficiency with utmost economy.



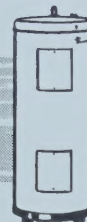
COOKING APPLIANCES

Electric, gas, oil and solid fuel ranges . . . known and preferred by generations of Canadian women.



WATER HEATERS

Electric or oil-fired glass lined water heaters provide a constant supply of crystal-clear hot water.



FAWCETT . . . growing with Canada . . . anticipating the needs and desires of the people . . . establishing the standards of quality . . . serving the homes and industries of the Nation for more than a century.



FAWCETT INDUSTRIES